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TRANSNATIONAL CORPORATION IN THE COFFEE INDUSTRY IN BURUNDI*

* The views expressed herein are those of the author and do not necessarily represent the views of this organization.

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Glossary

1. IACO: Inter-African Coffee Organization
2. A.C. .: Association des Commerçants Burundi (Burundi Traders' Association)
3. ARMOLAC: Armement du Nord du Lac
4. BANCOBU: Banque Commerciale du Burundi
5. B.B.A.: Banque Belge-Africaine
6. B.C.B.: Banque de crédit de Bujumbura
7. B.C.C.: Burundi Coffee Company
8. B.N.D.E: Banque Nationale de Développement Economique
9. B.R.B.: Banque de la République du Burundi
10. D.E.S.: Dar-es-Salaam
11. E.P.B.: Exploitation du port de Bujumbura (Bujumbura Port Authority)
12. E.C.A.: Economic Commission for Africa
13. F.A.O.: Food and Agriculture Organization
14. FECOBU: Fédération des Commerçants du Burundi
15. GATT: General Agreement on Tarifs and Trade
16. ICO: International Coffee Organization
17. INSS: Institut National de la Sécurité Sociale (National Social Security Institute)
18. ISABU: Institut des Sciences Agronomiques du Burundi (Burundi Institute of Agriculture)
19. OAMCAF: Organization Africaine et Malgache du café (African and Malagasy Coffee Organization)
20. OCIBU: Office des Cultures Industrielles du Burundi (Burundi Office of Industrial Crops)
21. OCIRU Office des Cultures Industrielles du Rwanda-Burundi (Rwanda-Burundi Office of Industrial Crops)

INTRODUCTION

1. The role of coffe in the economy of Burundi can be estimated in terms of certain basic elements: its preponderance in foreign trade as a whole, its share in Government revenue and its impact in the area of development financing. The aim of this study, however, is not to analyse these aspects, important though they may be, but to show the developments in relations between the Government of Burundi and transnational corporations in this key sector of the economy.

2. The second chapter is devoted to the process of coffee production world-wide, at the African level and in the specific context of Burundi. The third chapter deals with the problematic structure of the coffee market. It shows on the one hand how the Government of Burundi took over coffee marketing channels from picking to exportation, and on the other hand, points out the effect of domestic and international mechanisms in determining coffee prices. The last chapter covers characteristics of the transnational corporations involved in the Burundi coffee industry and discusses the distribution of revenues from coffee among the different parties concerned, namely the planter, the middleman and the State.

3. The study shows in conclusion that the changes that have taken place over a period of some ten years have favoured the government's position from a domestic standpoint, but that transnational corporation control on the international level is still absolute.

CHAPTER II

COFFEE PRODUCTION

A. General background

1. Production conditions

(a) Different types of coffee

4. There are over forty different species of coffee plants with extremely varied characteristics.1/ The three most widespread species are the following:

(i) arabica, which ranks first in the world and represents approximately 65 per cent of total harvests;

(ii) canephora, the best known variety of which is robusta, occupying the second place with nearly 33 per cent of world production;

(iii) liberica, which is cultivated in only a few countries and occupies a secondary place in total production.

5. From a commercial standpoint, the nomenclature of the International Coffee Organization (ICO) distinguishes four major types of coffee:

(i) Colombian milds (Colombian arabica) produced by Colombia, Kenya and Tanzania;

(ii) Other milds, produced primarily by 17 countries including inter alia Burundi, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, India, Jamaica, Mexico, Papua New Guinea, Peru, Rwanda and Venezuela.

(iii) Unwashed arabica produced by Brazil, Bolivia, Ethiopia and Paraguay;

(iv) Robusta, nearly all of which comes from the low-lying regions of Africa and Asia; the principal robusta-producing countries involved here are Angola, Ghana, Indonesia, Liberia, Nigeria, Sierra Leone, Trinidad and Tobago, Uganda and Zaire, as well as the countries belonging to the African and Malagasy Coffee Organization (Organisation africaine et malgache du cafe - OAMCAF), namely Benin, the United Republic of Cameroon, the Central African Republic, the Congo, Gabon, the Ivory Coast, Madagascar and Togo.

1/ Cf. R. Coste, Les cafeiers et les cafes dans le monde, (Paris, Editions Larose, 1955 to 1961); P. Jobin, Les cafes produits dans le monde, 1976

(b) Cultivation requirements

6. Regardless of their species, coffee plants thrive only under specific conditions of temperature, hydrography and humidity. To a large extent, only the countries of America, Africa and Asia lying in tropical and semitropical regions meet these requirements:2/

- The ideal mean temperature falls between 22°C, with as little deviation from this range as possible. Arabica, however, has relatively better resistance to low temperatures than robusta; no species, however, can survive for long when the temperature drops to near 0° C;
- The ideal rainfall for coffee plants amounts to 1500-1900 mm per year;
- Atmospheric humidity plays a significant role for the different types of coffee plant, but more so for robusta than for arabica;
- Soil quality does not appear to be an element of major importance: the coffee plant does not exhibit any special requirements in this area, provided that depth of soil is adequate;
- As regards altitude, arabica generally grows at elevations above 1000 metres, whereas robusta is at home in all regions between sea level and 2000 metres.

(c) Plantation characteristics

7. In more than half the producing countries, coffee cultivation is essentially an undertaking of small farmers, while in most of the others, medium and small-scale plantations predominate.3/ Large-scale plantations are not all located in America; African countries such as Angola and the Ivory Coast figure among a dozen or so countries out of some 60 producer States with large-scale operations. In addition, even on large estates, coffee cultivation is not highly mechanized. The activity requires far more human labour than mechanical equipment: mechanization is used only for certain operations, frequently to make up for a shortage of labour.

8. Another characteristic of coffee is its cultivation, in nearly all producing areas on private plantations. Even in the few countries that have enormous plantations, these generally belong to individuals or companies. Ownership by governments of coffee plantations is consequently fairly rare.

(d) Economic factors of production

9. The level of investment required for coffee plantation -- land, shrubs, building, etc. -- is relatively high in view of owners' means. Fixed investments - the largest component of which is the cost of land - vary considerably depending on plantation size, country and even from one area to another. In this connexion, the least expensive land is generally found in Africa.4/

2/ For characteristics of coffeeplants, see UN FAO, World Coffee Survey, Rome, 1969.

3/ In this connexion see UN FAO, The World Coffee Economy, Rome 1962.

4/ Regarding all these problems, see UN FAO, The World Coffee Economy, op.cit.

10. Determining the production cost of commercial coffee is somewhat difficult because coffee growing is often an enterprise of small farmers. On small family plantations, work is generally done by the owner and members of his family, whose services do not always have a monetary value: management and labour expenses are therefore not easy to determine; moreover, equipment and facilities are reduced to very little. Production costs vary enormously but on the whole, are lower on the small farms and generally higher on the big plantations. Available FAO data show furthermore that production costs are appreciably lower in Africa than in Latin America. This is explainable not only in terms of the fact that wages are lower in the former, but also that robusta requires less cultivation and maintenance than the arabica coffee grown in Latin America. In as much as robusta is also more vigorous and more disease-resistant, one can reduce that with it, health care and control costs are reduced.

11. Finally, per-hectar yields are highly variable and depend chiefly on physical environment, seed quality and level of plantation maintenance and management. Therefore yields, too, differ from one country to another and from one plantation to the next within the same country.

Table 1: Basic data on coffee growing in certain producer countries

Country	Type of coffee	Harvest period month 1 to 12	Harvested area in 1980 (1000 ha)	Mean Yield in 1980 (kg/ha)	1980 Production (1000 MT)
AMERICA					
Brazil	Arabica	4 to 9	2215	482	1067
Colombia	Arabica	All year	1200	636	763
Mexico	Arabica	11 to 2	356	624	222
AFRICA					
Ivory Coast	Robusta	11 to 4	1000	245	245
Angola	Robusta	5 to 9	200	200	40
Uganda	Robusta	All year	180	685	
Ethiopia	Arabica	10 to 12	707	273	193
Zaire	Rob.+Arab.	All year	236	380	90
Burundi	Arabica	4 to 9	35	606	21
ASIA					
Indonesia	Robusta	5 to 12	410	586	240
India	Arab.+Rob.	10 to 3	200	750	150

Sources: FAO: FAO Production Yearbook, vol. 34, Rome, 1981; Banque francaise et italianne pour l'Amerique du Sud: Le marche mondial du cafe depuis 1968, Etudes economiques, Paris, May-June 1973.

2. World coffee production

12. For decades Brazil has occupied a leading position in coffee production. Coffee, Ethiopian in origin, was introduced there in about 1727. Brazil exported its first coffee (13 bags) in 1800; by 1881 its production had reached 6,000,000 bags; today the country is by far the world's foremost producer.5/ As a result, the volume of world coffee production is largely affected by levels and fluctuations of Brazilian harvests.

(a) Recent trends

(i) Situation between the two World Wars

13. From the nineteen-twenties to the start of the Second World War, the coffee situation was characterized by chronic over-production. During the period 1920-1925 world production exceeded total consumption by 10 per cent. However, as Brazilian production made rapid strides starting in 1926, world production increased by nearly 40 per cent between 1926 and 1930 over its 1920-1925 level, and the excess of production over exports reached approximately 35 per cent.

14. When demand dropped off as a result of the economic depression the excess of production over exports increased further reaching approximately 40 per cent during the period 1931-35 and 45 per cent in the subsequent five years. Between 1931 and 1939, Brazil was compelled to destroy more than 4 million tons of coffee.

(ii) Restrictions due to the War

15. The War years completely disrupted the structure of coffee production. Producing countries witnessed the disappearance of the European market, which had previously absorbed approximately 40 per cent of coffee exports. Production thus dropped from 2.12 million tons in 1939/40 to 1.61 million in 1944/45. In view of the critical notice of the situation, in 1940 fourteen producing countries and the United States signed an Inter-American Coffee Agreement assigning export quotas to each producing country, especially for export to the United States.

(iii) The post-war period

16. Since the end of the Second World War two important facts have marked the structure of coffee production: the first is the rapid expansion of world production, which rose from approximately 1.7 million tons toward the end of the War to 4.5 million tons in 1959/60. The second consists of changes which have taken place in geographic distribution of world production to the detriment of Brazil.

17. Changes in distribution and in particular the decline in Brazilian production played an important part in the decrease in total world production during the years immediately following the War.

5/ For historical aspects, see Le Courrier, Brussels, January-February 1980, special issue devoted to coffee.

18. High coffee prices in 1950-1957, however, brought about a period of plantation expansion, a wave that lasted virtually until 1958. During the interval from 1950 to 1955 coffee production certainly increased, albeit far less rapidly in Brazil and Colombia than in other producing countries. During the next five years, on the other hand, the situation was reversed: from 1955/56 to 1958/59, Brazil and Colombia contributed more than 70 per cent to the expansion of world prodcution. Thus on the whole, world production rose by 1.4 million tons on 65 per cent, from 1950/51 to 1958/59.

19. The following table summarizes coffee production in 1921-1939 and 1947-1959.

Table 2. World coffee production by region 1921-1939 and 1947-1959 - yearly averages

Period	Latin America				Africa	Rest of The World	Total
	Brazil	Colombia	Others	Total			
	(a) Thousands of Tons						
1921-25	887	124	296	1307	32	98	1437
1926-30	1288	175	344	1807	53	135	1995
1931-35	1366	223	355	1944	92	142	2178
1936-39	1388	265	397	2050	149	156	2355
1947-50	1031	339	405	1775	248	68	2091
1951-53	1105	397	467	1969	332	94	2395
1954-56	1129	359	539	2024	467	116	2607
1957-59	1917	470	617	3004	597	144	3745
	(b) Percentage						
Variations between:							
1921-25 & 1926-30	+45	+41	+16	+38	+66	+38	+39
1926-30 & 1936-39	+ 8	+52	+15	+13	+181	+16	+18
1936-39 & 1947-50	-26	+28	+ 2	-13	+66	-57	-11
1947-50 & 1954-56	+10	+ 6	+32	+14	+88	+78	+25
1954-56 & 1957-59	+70	+31	+15	+48	+28	+24	+44

Source: FAO: The World Coffee Economy, op. cit., p.12

(b) Present situation

20. Two events of major importance have characterized coffee production in the past two decades:

(i) the establishment of international agreements in 1962, 1968 and 1976: the current International Coffee Agreement includes 72 members of which 47 are exporting and 25 importing countries: in other words, the Agreement incorporates the vast majority of producers and buyers of coffee;

(ii) the destruction of a sizeable portion of the Brazilian crop by freezing temperatures, particularly in 1963, 1969, 1972 and 1975: reduced production for one or two years after a freeze has invariably caused supply difficulties and variation in price, due to Brazil's on the world market.

21. Basic data pertaining to coffee harvests, which according to the ICO are based on seasons and not on years, show in this connection that total world production has progressed in a sawtooth pattern over the past few years. Indeed, since the mid 1970s production has undergone considerable variation in amplitude, on four occasions, 1975, 1978, 1979 and again 1981, 6/ due precisely to the effect of the frosts in Brazil.

22. Irregularity in the volumes of harvests is illustrated in the overall figures given in the following table, which also shows the rapid rise in production during the past two seasons: the 1980/81 crop, for example, is nearly double that of 1975-76. In addition to amounts for total production, figures also include data on consumption in producing countries, which makes it possible to ascertain another essential indicator, exportable production.

Table 3. World production per coffee season (in thousands of 60-kg. bags)

Coffee season	Total production	Producer consumption	Exportable production
1974-75	74 770	17 129	57 641
1975-76	56 226	17 039	39 189
1976-77	68 880	17 449	51 511
1977-78	74 209	17 368	56 841
1978-79	80 920	17 697	63 223
1979-80	76 210	18 931	57 279
1980-81	96 255	18 881	77 033
1981-82	84 160	19 178	64 982

Source: Marches tropicaux et mediterraneens, No. 1872, 25 September 1981, according to UN data.

23. Inasmuch as Brazil dominates the market, irregularity in world production essentially orginates in that country. Brazil's total production has experienced nearly every possible level, from 6.66 million bags in 1975/76 to 32.1 million in 1980/81. Variations are even more apparent if one considers exportable production levels: 2 000 bags in 1975/76 and 24.7 million bags in 1980/81.

24. The rapid rise in production during the past two seasons is chiefly attributable to Colombia and the OAMCAF countries. The figures in exportable production given below show this clearly as does a comparison between the first and last years in the table.

Table 4. Exportable production per coffee season (in millions of bags)

Season	Brazil	Colombia	OAMCAP	Other arabicas	Other rebustas	Total
1974-75	15.6	6.7	6.8	20.6	7.9	57.6
1975-76	-	7.3	7.7	17.3	6.7	39.2
1976-77	9.0	8.1	7.6	18.3	8.3	51.4
1977-78	14.2	9.6	5.4	20.0	7.6	56.8
1978-79	14.7	11.0	7.7	22.2	7.5	63.2
1979-80	9.7	10.4	6.9	21.9	8.3	57.3
1980-81	24.7	11.9	9.4	21.8	9.3	77.0
1981-82	9	12.6	9.9	25.6	7.8	65.0

Source: Marches tropicaux et mediterraneens, ibid., p. 2464

(c) Medium-term prospects

25. It is not easy to establish projections for a commodity such as coffee, which can vary considerably from one year to the next. 7/ Leaving aside unforeseeable weather conditions, however, prospects for coffee production are essentially dependent on three factors:

- Availability of land and labour;
- Present price level and probable price fluctuations in the near future;
- Social, economic and political conditions in the different producing regions.

26. The importance of each of these three factors varies from one country to the next. The approach, however, renders comparisons and global projections difficult: FAO projections for 1985, which in fact go back to 1979, assume for the purposes of uniformity that known conditions will remain unchanged. On the basis of prospects established by FAO, world production will tend to increase, but somewhat more slowly than during the previous decade, unlike the case of numerous other tropical commodities.

27. World production, which averaged 4.4 million metric tons in 1972-1974, should climb to 5.6 MT by 1985 according to normallpredictions and could reach 6.4 MT in accordance with the most optimistic hypotheses. However, the contributions of major producers are likely to be highly variable, as shown in the following table.

7/ Cf. UN FAO: Agricultural Commodities Projections, 1975-1985, Rome,1979. Also see World Bank Structure and Prospects of the World Coffee Economy, New York, June 1975.

Table 5. Actual and projected coffee production

	Actual Production		Projected 1985 production	
	Mean 1972-1974	1977	Basic hypothesis	Additional hypothesis
WORLD	4 381	3 680	5 640	6 350
DEVELOPING COUNTRIES	4 380	3 680	5 640	6 350
Latin America	2 731	2 000	3 670	4 140
Africa	1 278	1 280	1 420	1 580
Near East	6	6	10	10
Far East	322	350	480	540
East and Central Pacific (ECP)	11	8	20	20
Asian countries Miscellaneous	32	36	50	60
Developed countries	1	0	0	0

Source: FAO, Agricultural Commodities Projections, op.cit., p. 72.

28. Brazilian production is expected to rise to 1.7 MT, its level prior to the 1975 crisis. Colombia's production would be in the vicinity of 0.7 MT, growing at a rapid rate of 3 per cent. Total production for the remainder of Latin America should reach 1.3 MT in 1985, as against 0.98 MT in 1972-74. Increases in African production are anticipated to be modest: the total harvest should in fact only rise from 1.3 MT in 1972-74 to 1.4 MT in 1985. As for Far Eastern production, the rapid growth it has experienced over the past few years is expected to continue into 1985.

29. The projections presented here are neither forecasts nor goals, simply evaluations of the results that can be anticipated on the basis of certain specific hypotheses.

3. The position of Africa

(a)

(a) Expansion of coffee cultivation

30. Long before introduction of its cultivation, the coffee shrub grew wild in Africa. As a result, the African continent has played a very important role in the development of coffee-growing. Africa more than any other region offers the most favourable conditions for coffee production, which include:

- Abundance of wild coffee trees in tropical and subtropical forests;
- Exceptionally favourable soil and climate conditions in many countries
- Vast areas where the production of various types of coffee is possible
- Existence of relatively cheap labour, at least in certain regions.

31. As shall be seen later, thanks to these factors coffee production was able to rise from 1.3 to nearly 25 per cent of total world production within a span of a few decades.

32. Nevertheless, African coffee cultivation is not homogeneous, as Africa is a mosaic of regions, each exhibiting different ecological and economic characteristics: while it is true that African production consists essentially of robusta, the continent also produces some of the world's best arabica in the "Colombian milds" category (Kenya, Tanzania), "other milds" (Burundi, Rwanda) and "unwashed arabica" (Ethiopia).

33. Arabica production in Africa is limited on the one hand by leaf rust in certain countries and on the other, by the fact that it can only be grown at high altitudes. As for robusta, aside from the fact that it is a hardy and disease-resistant species, it also requires less care than arabica, a quality that presents numerous advantages.

(b) Development of production

34. It is estimated that during the years immediately prior to World War one, African production averaged only 250 000 bags per year, representing at the time approximately 1.3 per cent of world coffee production. 8/ Expansion of coffee plantations occurred after 1918. As a result, 20 years later African production had multiplied more than tenfold: in 1944/45 it reached nearly 3 300 000 bags.

35. The most rapid expansion, however, has occurred during the past two decades. This has been stimulated by relatively advantageous prices, favourable ecological conditions and appropriate governmental measures. From an average of 16 million bags of 23 per cent world production of 66 million bags during the period 1961 and 1965, African production rose to 19.5 million bags in 1969/1970, or 27 per cent of the world total. Export availability has also been dynamic: in 1972/73, for example, this involved nearly 18.5 million bags, or 35 per cent of the world's exportable production.

36. Since the mid 1970s, African production has retained about the same proportions, approximately one quarter of the coffee produced in the world and over one third of the exportable quantity.

B. Coffee production in Burundi

1. Development of volume of production

(a) Expansion of coffee-growing

37. Coffee arabica was introduced to Burundi for the first time by the White Fathers missionaries in 1904. 9/ It was only in 1930, however, that the administration

8/ Cf. Benoit, Dusabeyezu La place du cafe dans l'economie africaine, Thesis, University of Fribourg, Switzerland, 1971.

9/ For this issue, see B. Capecchi: Le cafeier et le theier au Burundi, Thesis, University of Bordeaux, 1977. Also cf. ECA: Production and Marketing of Coffee in Burundi, Working Paper No. 6, Addis Ababa, 1979.

of the time developed a national, programme to intensify coffee cultivation. The programme achieved some results until World War II, at which time coffee expansion was temporarily shelved.

38. Major efforts were resumed during the post-war period and were given particular emphasis in 1945, with the creation of the Office des cafes indigene du Rwanda-Burundi - OCIRU (Ruanda-Burundi Bureau of coffee), an agency whose task was to take charge of the development of coffee production in the two countries. Created in June 1964 to replace OCIRU, the Office des cultures industrielles du Burundi - OCIBU (Burundi Bureau of Industrial Crops) has played a predominant role in the area of coffee production.

39. According to FAO data Burundi had approximately 26,000 hectares planted with coffee trees in mid-1964 and nearly 35,000 in 1980. The goals of the Government and the coffee-growing expansion programme call for Burundi to increase the figure to 100,000,000 coffee trees by 1992.

40. As at the outset, nearly 95 per cent of total production is in the hands of small farmers today. Burundi coffee consists of approximately 90 per cent arabica and 10 per cent robusta: production of the latter is essentially in the hands of the Ruzizi Company. It should be mentioned here that Ruzizi, a Belgian-owned concern is the only transnational corporation in the Burundi coffee plantation sector; the Sodagri and Sobumines Corporations are affiliated with Ruzizi in one way or another.

41. Average national yields of some 700kg per hectar over the past five years today rank among the highest in the world. This indicates the extent to which the perseverance of public authorities in developing "coffee capital" during recent decades has paid off. Available statistics, however, show appreciable disparities in the components of this yield: they vary from lows of 250 to highs of 1000 kg per hectare, depending upon climatic conditions and degree of maintenance: sustained efforts are therefore still required in certain sectors.

(b) Evolution of production

42. Three striking phenomena characterize the development of coffee production in Burundi over the past 20 years:

- A succession of rises and falls in annual production;
- A gradual decrease of the share of top-grade coffees in production as a whole;
- A distinct split in averages for the period considered, of 15,000 tons from 1961 to 1969 and 20,000 tons from 1969 to 1980.

Table 6: Growth of green coffee production (Arabica and Robusta)

Season	Volume (in T)	Variation from one season to the next (in %)	Five-year moving average (in T)
1967-68	18 611	-	-
1968-69	16 539	-11.2	
1969-70	14 554	-12.0	19 375
1970-71	22 118	51.9	19 533
1971-72	25 051	13.2	20 504
1972-73	19 403	-22.6	23 221
1973-74	21 395	10.3	22 183
1974-75	28 140	31.5	21,458
1975-76	16 924	-39.9	20.984
1976-77	21 428	-20.5	21 289
1977-78	17 030	-20.5	21 206
1978-79	22 921	34,6	-
1979-80	27 728	21.0	-

Source: Banque de la Republique du Burundi (BRB): Annual Report, 1980.

43. These characteristics are to some extent rooted in natural causes such as rainfall, altitude, sunshine and soil; influencing factors also stem directly from the activities of man. In this connexion, maintenance is of considerable importance in the productivity of coffee trees and plays a significant role in determining size of production. Inasmuch as coffee production in Burundi is essentially of the family type, three forms of problems arise in the area of maintenance care:

- Shortage of management staff;
- Dearth of adequate equipment;
- Lack of familiarity with the processing of good coffee.

44. One of the principal functions of OCIBU is precisely to provide support to planters not only with a view to stabilizing national production, but also in order to increase its quantity and quality.10/ OCIBU uses various means to achieve this, including:

- Purchase of high-yield seed by ISABU the Burundi Institute of Agriculture and its germination in nurseries through the offices of the Department of Agronomy;
- Recruitment and training of management personnel;
- Purchase and distribution of insecticides for detecting and treating coffee pests;
- Construction and maintenance of pulping centres in the Communes;
- Distribution of chemcial fertilizers for the NGOZI project by way of participation in its execution;

10/ Cf. OCIBU: Essai sur la politique nationale du café, Bujumbura, 1980.

- Award of prizes to the best coffee planters, consisting of objects for improving coffee yield and quality, in particular saws, pruning shears, drying equipment, etc. 11/

45. OCIBU action is also sustained by Government objectives to reach a certain coffee production volume: the 3rd Five-Year Plan for 1978-1982 estimates in this connexion that Burundi should reach a figure of 40,000 tons of parchment coffee in 1982. These forecasts are based on three current government-managed operations: 12/

(i) Continuation of the NGOZI-KAYANZA project, which is aimed both at increasing production (manuring, plant-hygiene treatment) and improving quality (pulping centres);

(ii) Continuation of project to replace old coffee trees, which is aimed at increasing production through renewal of obsolete plantations and small expansions in particularly favourable areas;

(iii) Continuation of robusta coffee operations: extension of plantations in the projects Imbo-nord, Imbo-FED and Est-Imbanda and of the Rumonge coffee plantation.

46. Progress in the area of coffee production can be assessed globally from two points of reference: whereas in 1931, Burundi produced 60 tons for export, during the last season it produced nearly 30,000 tons. The difference in these two figures gives a good idea of achievements in coffee cultivation over the last 50 years. Volume of production, however, is still very small in terms of area: it amounts to slightly less than 2.5 per cent of African production and approximately 0.5 per cent of world production.

2. Development of quality

47. Increases in volume of production are not the sole objective of the Burundi authorities: inasmuch as the volume of coffee produced can hardly assure Burundi a leading role in the world market, the country must seek a position through the quality of its coffee.

48. In this connexion, in order to be exported Burundi coffees must meet both criteria of the legislation on quality and export standards. Determination of quality is the responsibility of the OCIBU Laboratory in accordance with internationally-recognized criteria such as taste, colour, bean size, etc.

11/ Cf. A. Sidihebura, L'organisation de la production et de la commercialisation due cafe du Burundi, Memoir, University of Zaire, Kinshasa, 1974.

12/ See Ministry of Planning: Plan Quinquennal de development economique et social du Burundi 1978-1982, and Quelques hypotheses a la base du cadre macro-economique dans le plan quinquennal 1979-1983, Bujumbura, 1978.

(a) Grade typology

49. The commercial designations of grades of arabica are classified as follows:

- Washed and fermented coffees:
  F.W.AAA: Fully washed AAA
  F.W.AA: Fully washed AA
  F.W.A : Fully washed A

- Washed coffees 13/
  OCIRU 1 and OCIRU 1 CA
  OCIRU 2 and OCIRU 2 CA
  OCIRU 3A
  OCIRU 3B
  OCIRU, sub-standard
  . marketable (HTM)
  . broken (HTB)

- Broken coffee
  0/4 : OCIRU four
  0/5 : OCIRU five

50. Green coffee of the robusta species is exported in the following three grades:

- Washed robusta R/W
- Natural robusta R/N
- Broken robusta R/B

(b) Lowering of quality

51. Statistical data for the last few years show a tendency toward lower qualities of Burundi coffee. According to OCIBU, there are five main causes for this degradation:

- Damage caused by the variegated coffee bug antestiopsis (often called bean antestia);
- Harvesting done at the wrong time;
- Improper pulping in certain centres;
- Improper conditioning or packing of beans;
- Technical faults at the factory level.

52. Decline in quality has two serious consequences, the disappearance of certain grades and a decrease in the share of good grades out of total production.

13/ Owing to thereknown of OCIRU abroad, Burundi coffees continued to bear this acronym even after the creation of OCIBU.

(i) Disappearance of certain grades

53. Top-grade washed and fermented coffees F.W.AAA and F.W.AA no longer figure in the grade classification done in the laboratory. Washed coffees 1, 1CA, 2 and 2CA have likewise not appeared in Burundi crops for several years now. Both these grade types represented high-priced coffees; in addition to losses in income, decline in quality has an adverse effect on the commercial reputation of Burundi coffee.

(ii) Relative drop in grades

54. Over a long period and in relative terms, the quality of Burundi coffee has also undergone a certain deterioration.14/ The superior grade OCIRU 2, which amounted to nearly 40 per cent of production in 1964/1965, rapidly fell of subsequently, disappearing completely in 1974/1975. OCIRU 3A, which constituted the standard grade and ranged from 60 to 80 per cent of total production up to 1974/1975, gradually diminished in the years that followed: it now exceeds 3B only one year out of every two, and even then it does not always constitute 50 per cent of the processed coffees.

55. The share of washed and fermented coffees is indeed very small, even when taking into account the disappearance of F.W.AAA and F.W.AA grades. The effects of decline in quality are thus felt predominantly at the level of washed coffee of the 3A grade, which is losing ground to 3B and broken coffee.

Table 7: Exported production per grade and per season

Type of coffee	1976-77		1977-78		1978-79		1979-80	
	Tons	%	Tons	%	Tons	%	Tons	%
I ARABICA								
FWAA	-	-	75	0.5	-	-	165	0.6
FWA	270	1.4	255	1.7	450	2.1	1015	3.9
OCIRU 3A	8626	43.2	7333	48.3	9045	42.8	12473	48.2
OCIRU 3B	9680	48.4	6107	40.2	10087	47.7	10098	39.0
OCIRU4 and 5	1377	66.9	1162	7.7	1366	6.5	1751	6.9
Unclassified	29	0.1	16	0.1	32	0.1	44	0.2
Roasted	-	-	222	1.5	165	0.8	3320	1.2
Total	19982	100.0	15174	100.0	21146	100.0	25866	100.0
II ROBUSTA								
Natural	915	63.3	1016	54.7	899	50.6	992	53.3
Washed	513	36.7	840	45.3	876	49.4	870	46.7
Total	1446	100.0	1856	100.0	1775	100.0	1882	100.0
III TOTAL GENERAL	21428		17030		22921		27728	

Source OCIBU, Annual Reports, 1977 to 1980.

14/ The BRB has regualrly analysed this aspect of the problem in its Annual Reports and proposes certain remedies for it, in particular at the particular at the planter level.

(c) Protection of quality

56. Protection of quality and control of production of Burundi coffee take place in the OCIBU laboratory: all coffees produced in Burundi must compulsorily pass through it. Thus to a large extent, the OCIBU laboratory guarantees the reputation of Burundi coffee on the world market, inasmuch as it issues the quality label. 15/ In its efforts maintain quality, the OCIBU laboratory:

- Controls pulping and hulling with a view to encouraging the best possible processing techniques;
- Takes samples from batches destined for export, with a view to determining their quality;
- Establishes official standard samples and issues certificates of quality and of origin;
- Supervises coffee from its entry into the warehouses in the port to its shipment for Kogima;
- Works in close collaboration with the Burundi Coffee Company (BCC), private banks, the Banque de la République (BRB), buyers, and the ICO.

57. The credibility of the OCIBU laboratory lies in the fact that foreign customers buy Burundi coffees upon mere presentation of the certificate of quality issued by it.

15/ Cf. OCIBU: Essai sur la politique nationale du café, op. cit., p. 87.

CHAPTER III

STRUCTURE OF THE COFFEE MARKET

A. Controlof marketing in Burundi

1. Control of harvesting and collecting

(a) Gradual disappearance of private companies

58. All stages of coffee marketing long remained the monopoly of private corporation such as Ruzuzi, Prostan, Sobumines, Israel, D & H, Benalco, Sodagri, Burundi Export and Coffex, most of which were subsidiaries of European and chiefly Belgian companies. This situation stemmed from the fact that local traders had neither experience in this area nor sufficient financial guarantees for obtaining necessary credit. Foreign companies were the only ones that could obtain bank credit for financing their coffee-producing activities. 16/

59. It was only following the creation of the Association des commerçants burundi - ACB (Burundi Traders' Association) in 1967 that local merchants entered the domestic coffee-marketing circuits. They subsequently founded their own companies, very clearly oriented in the direction of the coffee trade. This was notably the case with Contralac, Senaco, Sideba, Sonicaf, Sonimport - Export, Sitarco, etc.

60. The 1978/1979 season witnessed two important developments in the organization of the coffee market in Burundi:

(i) Total disappearance from the market of foreign corporations, which had represented nearly 20 per cent of contributions in the previous season;

(ii) Voluntary withdrawal of three large domestic wholesalers Comptoir Import-Export, Siex and Cotralac, on the eve of the season, who thus challenged the Government which had just refused to grant them certain advantages.

(b) Designation of OCIBU as sole wholesaler

61. In the 1978/1979 season, the Government of Burundi decided to take over, at first partially and then totally, the parchment coffee collecting circuits, designating OCIBU as wholesaler. Reduction in the number of wholesalers was aimed at channeling a greater share of coffee revenues toward financing economic and social development rather than toward speculation and at reducing the number of middlemen, who curtailed the revenue of the State and the income of the producer.

16/ Cf. Sindihebura, op.cit. for these questions.

62. In view of OCIBU's initial inexperience in this area, only 46 per cent of the 1978/1979 harvest was entrusted to it, the remainder being handled by private corporations that had shown themselves to be co-operative, namely Sonaco, Sonicaf, Sideba and Fecobu.

63. As a result of good organization 17/ and know-how acquired during this first experiment, the wholesale sector was granted to OCIBU on an exclusive basis for the 1979/1980 harvesting season which was characterized by total disappearance of private companies: even the few local concerns that stayed in business were in fact excluded, and OCIBU was in effect given a coffee-collecting monopoly (see Table 8

2. Control over the financing system

64. The local commercial banks (BCB, BANCOBU, BPA), all of which are subsidiaries of large foreign banks, enjoyed a de facto monopoly in financing coffee-related activities. 18/ What is more, the volume of credits to the economy is strongly dominated by the financing of the coffee harvest. Thus the Central Bank has always been involved in determining the cost of credit as well as in issuing instructions establishing financing terms and procedures connected with the coffee harvest. 19/

(a) Award of credits by commercial banks

65. In the past, the commercial banks shared a scant clientele of local and foreign private corporations eligible for loans for financing coffee activities. Today, OCIBU and BCC are the only partners in the banking-system dialogue in this area: OCIBU has a monopoly over the collection and processing of arabica coffee and consequently, prefinancing and processing credit are the preserve of this organization. Storage and shipping loans are granted to BCC, which has been given exclusive rights for foreign markets.

66. In this connection, the financing of a batch of coffee - 15 tons - only involves one single banking procedure from prefinancing to shipping: the batch simply changes owner at the warehousing stage from OCIBU to BCC.

67. Under the former system, private corporations which were granted loans were divided up among the three commercial banks. Since the 1979/1980 season, a consortium-type credit has been set up in favour of OCIBU AND BCC with a view to

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17/ See OCIBU, Politique de commercialisation du café au Burundi, Bujumbura, 1978.

18/ The experience of HVDE, a mixed-economy corporation, in the coffee business was relatively short-lived, virtually terminating in 1974 with the disappearance of the ACB--Burundi Traders' Association.

19/ On this issue see T. Kadede, Le financement des exportations au Burundi, Memoir, ISCAM, 1980.

Table 8. Distribution of Arabica parchment coffee brought to the processing plants by wholesaler

Corporation	1976/77		1977/78		1978/79		1979/80	
	T	%	T	%	T	%	T	%
I. LOCAL CORPORATIONS								
Contralac	2 684	9.9	-	-	-	-	-	-
Comptoir Import -Export	1 951	7.1	3 537	17.7	-	-	-	-
Sideba	1 245	4.5	994	5.0	3 057	11.0	-	-
Sitraco	-	-	3 516	17.6	-		-	-
Sonaco	2 711	9.9	2 769	13.9	5 195	18.8	-	-
Sonicaf	2 404	8.0	2 140	10.7	4 890	17.6	-	-
Sonimport	6 425	23.4	3 113	15.6	-	-	-	-
OCIBU	-	-	-	-	11 510	41.6	32 170	100.0
Fecohu	-	-	-	-	3 041	11.0	-	-
Subtotal	17 220	62.8	16 069	80.5	27 693	100.0	32 170	100.0
II. FOREIGN CORPORATIONS								
Burundi Export	5 890	21.5	-	-	-	-	-	-
Israel D & H	2 730	9.9	2 306	11.5	-	-	-	-
Prostan	1 590	5.8	1 588	8.0	-	-	-	-
Subtotal	10 210	37.2	3 894	19.5	-	-	-	-
III TOTAL	27 430	100.0	19 963	100.0	27 693	100.0	32 170	100.0

Source: BRB: Bulletin trimestriel (Quarterly Bulletin), September 1980.

reducing possible risks. One of the banks, referred to as the "manager", is the only spokesman for OCIBU or BCC vis-à-vis the Central Bank in matters relating to granting of credit to finance the harvest as well as supervision of its use.

(b) Control mechanisms of the Central Bank

68. Coffee export financing operations from the purchase of parchment coffee from planters to its forwarding to foreign buyers are regulated and controlled by the Central Bank, Banque de la République du Burundi (BRB). Its actions relate principally to prefinancing, processing, warehousing and shipping credit.

(i) Conditions for granting prefinancing credit

69. Prefinancing loans are granted by the commercial banks to finance the purchase of parchment coffee from the planters. The managing bank must first apply for authorization from BRB on behalf of OCIBU, specifying in particular the allocation of prefinancing among the different banks pursuant to an agreement executed among them. The Banque de la République examines the application, taking into consideration the purchase price and the estimated volume of the harvest for the season.

70. Control over utilization of prefinancing credit by the Central Bank proves to be necessary as loan funds might be diverted from their intended use. "Thus, in the past, wholesalers applied for harvest loans and then used them for the cheap financing of something other than the purchase of coffee, such as capital assets or the purchase of goods that better lent themselves to speculation." 20/

71. In the event of failure to comply with the regulations of the Central Bank, sanctions are now imposed on the commercial banks, whereas formerly the penalty was applied to the private wholesalers who had little concern for the public wealth. The intention of monetary authorities is to impose greater responsibility on private banks so that they closely monitor the application of the loans granted by them.

(ii) Procedures for financing processing loans

72. Processing loans are necessary inasmuch as they fill the gap between parchment coffee purchases and green coffee sales to BCC, thus enabling OCIBU to pay for the coffee received at the plants. The conditions under which such loans are granted are defined by BRB and contained in the instructions on the financing of coffee harvests. Instructions for the 1980/1981 harvest season, for example, stipulate that the managing bank may grant processing loans by way of an advance on a

20/ T. Kadede, Le financement des exportations au Burundi, op. cit., p. 65.

promissory note or by discounting a note. Thus the Bank and OCIBU have a choice between the two banking techniques in the area of short-term credit:

- Discounting of a note;
- Advance on a note.

73. Discounting is obviously one of the safest forms of credit inasmuch as it lends itself more readily to cash conversion than other forms of credit.

(iii) Financing authorized for warehousing

74. The BRB instruction pertaining to the 1980/1981 coffee season states that storage credit is intended chiefly for the repayment of financing previously granted to OCIBU for the milling of a corresponding quantity of parchment coffee.

75. On the basis of the purchase prices of the different grades of coffee bought by BCC and the percentages of each grade out of total production, the Central Bank fixes the amounts of financing commercial banks are permitted to grant by way of warehousing credit.

(iv) Procedures for granting shipping loans

76. Shipping loans are financed jointly by BRB and the commercial banks. The Bank of Republic directly finances BCC for payment of export dutics and statistical tax. As regards loans financed by the commercial banks, they pertain to the market value of coffee and miscellaneous costs connected with exporting.

77. Once it has at its disposal the authorized figure for storage financing, the Central Bank computes the maximum shipping credit amounts to be granted to BCC by the commercial banks.

78. The following table shows the amounts authorized by BRB during the 1981/1982 season.

Table 9. Maximum authorized amounts of financing (1981/1982 Arabica Coffee season)

Stage of financing and nature of products	Authorized financing	
	Per ton	Per batch (Tonnage)
I. PROCESSING		
Parchment coffee (moisture content 15%)	121 500 F	2 660 850 F (21.9)
II. WAREHOUSING		
Fully washed (FW)	211 000 F	3 165 000 F (15.0)
Other marketable coffee	186 000 F	2 790 000 F (15.0)
Broken coffee	142 000 F	2 130 000 F (15.0)
III. SHIPPING		
Fully washed (FW)	226 000 F	3 390 000 F (15.0)
Other marketable coffee	201 000 F	3 015 000 F (15.0)
Broken coffee	157 000 F	2 355 000 F (15.0)

Source: BRB, Financement de la récolte caféière de 1981/82 relatif à l'arabic, Bujumbura, 1981, Annex 1.

3. Control of processing operations

79. Another aspect of control over coffee production is reflected in the change in ownership of the coffee processing plants. 21/ Formerly, various hulling plants were subsidiaries of foreign import-export concerns such as Hatton and Cookson (Unilever) for CELUCA or Jouret et Afrique for COFFEX. The owners of these plants possessed nearly all the processing facilities in Burundi until 1974. Moves on the part of a group of plant owners who aimed to corner the market and sabotage the 1974/1975 coffee harvest, however, forced the Government to requisition the three Ceduca, Unicafe and Indurundi plants, which represented nearly 50 per cent of the installed processing capacity in the area. In this connection, despite refusal of the Government, the Benalco Drew group had succeeded in absorbing ACB under the name Contralac and had thus made an attempt to take the monopoly on the processing and exporting of coffee away from the Government.

80. Day-to-day management of the requisitioned plants was first entrusted to OCIBU. In 1977, however, the Government decided to buy the various requisitioned plants as well as the Industrie Burundaise du café (IBC) and turn them into an integral part of OCIBU.

81. Prior to the requisition, the plants had a total processing capacity of 820 Tons of parchment coffee per day, as follows:

Unicafe:	200 tons per day
Ceduca:	200 tons per day
Indurundi:	90 tons per day
Coffex:	100 tons per day
Usico:	150 tons per day
ICB:	80 tons per day

82. The plants now operate as follows:

- The first three plants process arabica coffee, with a combined capacity of 490 tons per day. OCIBU, which centralizes and supervises all processing operations, is responsible for allocation of coffee between the plants;
- OCIBU has placed the ICB plant at the disposal of the Ruzizi corporation to process the robusta coffee from its own and other plantations as well as the arabica produced by the NGOZI project. OCIBU retains a right of supervision over Ruzizi's production from the standpoints of volume and quality;

21/ J.C. Vincent, Usinage du café au Burundi, Bujumbura, 1979.

- The Usico plant is in total disrepair; of the Coffex plant, only the shed is still kept as all foreign capital previously applied here has been shifted to neighbouring countries.

83. The operating plants are experiencing problems caused by age of equipment: for example, the most recent plant, Coduca, was built in 1964 with 1959 equipment salvaged from another plant. What is more, the original design specifications of the buildings and sheds no longer correspond to present production and processing needs. Consequently, OCIBU is planning not to replace the machines in the plants now used, but rather to undertake a total renewal of the processing tool and to set up a new, modern plant.

4. Control of foreign marketing

84. In spite of the fact that coffee is the nation's biggest export product, averaging 80 per cent of total exports, its overseas marketing was for long the private domain of foreign corporations. In the opinion of many, only foreign exporters knew the destination of Burundi coffee on the international market, and they derived considerable profits from it. Control over this sector of Burundi's economy by the public authorities only began in 1975 with the creation of BCC.

(a) Marketing prior to 1972

85. Until 1972 the system for marketing coffee abroad was the monopoly of foreign concerns. Neither OCIRU nor OCIBU, its successor, ever envisioned marketing coffee. As for the State, once it had set the "minimum price" to the planters, assured quality control and issued certificates of origin, it was content simply to record contracts, repatriate currency and collect taxes: there was no precise system of regulations. Consequently, private and often foreign owned corporations were able to profit from this liberal policy.

86. A number of coffee exporting companies operated on behalf of firms established abroad, either as subsidiaries or as official agents. There was thus a long history of "transfer prices", since export companies could sell at preferential prices that were lower than actual market prices.

87. The profits lost to Burundi in the area of foreign exchange were obvious; in addition the declared and hence taxable profits were lower than the profits actually made.

(b) The Group project

88. The move towards active participation by the State in the management of the coffee industry has increased progressively; a number of coffee-marketing projects were first examined in the 1970's.

2/ These aspects are dealt with in the study by MASHWABURE, E.: Le développement économique issu de l'industrie du café au Burundi, Memoir, University of Burundi, Bujumbura, 1977.

89. The most important of these, which was later also to prove the most dangerous, was the Lonrho proposal to create the "Société Burundaise d'Exportation" (SBE) and the "Burundi Produce Marketing Company Ltd." (BPMC). 23/ SBE, whose headquarters were to be located in Burundi, was to handle foreign marketing with regard to exporting. BPMC, to be located in London, was to handle all sales of Burundi's coffee abroad.

90. Under the new organization for marketing Burundi coffee, the Lonrho Group wanted to form a partnership with SBE in owing BPMC stock. Lonrho, however, did not wish to play any part in domestic marketing: it simply wanted 51 per cent interest in the financing of BPMC, with the rest of the stock belonging to SBE, or in other words to ACB/OCIBU.

91. The proposed structure had three major features:

(i) BMPC was to agree to buy all of Burundi's production FOB Dar es-Salaam and find outlets at suitable prices through John Holt Co.;
(ii) SBE was to sell all the arabica coffee produced in Burundi to BPMC for ten years;
(iii) John Holt was to handle brokerage on behalf of BPMC; it was also to hold the management contract for BPMC.

92. It should be mentioned that John Holt was a subsidiary of the Lonrho group.

93. An analysis of the proposals drew the government's to the following practical consequences:

- Burundi's representative in BPMC would have no controlling power as John Holt would be the sole Director, secretary, accountant and holder of of the management contract;
- The foreign marketing of Burundi's coffee was once again going to be entrusted to foreigners for a ten-year period with no possibility for terminating the contract in case of abuse;
- Certain clauses of the contract stipulated that John Holt had full latitude to use all sums arising from the sale of the products for the business of the company;
- BPMC's profits were to be taxed in accordance with the tax law of the host country Great Britain, thus resulting in a reduction of the rvenue expected by Burundi.

23/ In this connexion see OCIBU: Essai sur la politique nationale du café, op. cit., p. 159

94. This project was never implemented as it offered the State of Burundi very little chance of achieving its desired aim, having a right of inspection over all coffee related activities.

(c) Creation of the "Comité-café (Coffee Committee)

95. Since the studies conducted through 1972 did not propose an approach that would enable the State to dominate the foreign marketing of coffee, private corporations, most of them foreign, were able to retain monopoly over this sector with no trouble.

96. In 1973, however, the Government decided to establish a Sales Committee in charge of controlling coffee experts. It comprised representatives of the Central Bank, the Ministry of the Economy and sales division of OCIBU. The committee's main task was to seek the best prices on foreign markets and to diversify foreign outlets. From 1973 on, no sales contract for the exportation of arabica coffee produced in Burundi could be executed without prior approval by the State through the Comité-café.

97. The Committee, however, suffered from relatively serious shortcomings:

- It was neither equipped nor structured efficiently to perform its task of orienting sales contracts and analyzing foreign purchase offers;
- It performed its mission as though it were a second-rate activity, inasmuch as it met only twice a week, first to see what prices were being quoted throughout the world and secondly to discuss the execution of any contracts.
- Finally, it unwittingly became an agency for rendering free services to the private corporations which were still exporters.

98. Nonetheless, creation of the committee marked an important government step in the area of control over exports.

(d) Exclusive status accorded to BCC

99. In April 1975 the Government of Burundi assumed control of coffee exports by entrusting the export monopoly for all the arabica coffee produced in Burundi to the Burundi Coffee Company (BCC). The purpose of the company was to take over the work assumed until then by the Comité-café as well as all the activities previously carried on by the private exporters. At the outset BCC was a mixed-economy commercial company formed under public law. Its initial capital was divided up as follows:

- Group consisting of State, BRB, OCIBU: 25 million BurFr., or 60.98 per cent;
- Group of private companies: 16 million BurFr., or 39.02 per cent.

100. Participating private corporations ranked among the large wholesale companies that formerly controlled the bulk of the coffee-collecting process, but also included export companies, in many cases the owners of hulling plants. The private shareholders were notably Sonaco, Sonimport, Israel D & H, Contralac, Burundi Export, Produits Standars, Sonicaf and Coffex.

101. Obviously, part of the profits of the new company were earmarked for the private sector, while the other part was to constitute State income. The general economic situation at the time was favourable, thus BCC stockholders were able, for approximately three years, to obtain what are commonly referred to as "windfall profits" in the form of dividend distributions and rebates. 24/

102. A number of wholesalers withdrew from BCC, however, when the Government decided to review the distribution of revenue derived from the sale of coffee with a view to improving the remuneration of the producer and to allocating the windfall profits made by BCC to the investment budget. The capital of BCC was thus reduced to BurFr. 33 million, including 25 million for the Government group and 8 million for the private corporations. Subsequent conditions for holding stock in the company were more rigorous: as of 1978, all the private stockholders became virtually incapable of subscribing and were thus compelled to resign. BCC's by-laws were then revised and it turned into a public corporation with a corporate capital of BurFr. 25 million, divided up as follows:

- State of Burundi:	BurFr. 15 million
- BRB:	BurFr. 5 million
- OCIBU:	BurFr. 5 million

103. The new corporation enables authorities to strengthen their right of inspection over foreign transactions dealing with sales of Burundi coffee on the one hand, and to guarantee observance of the vital interests of the country on the other. In addition, in the area of robusta marketing, the Ruzizi corporation and associated plantation companies no longer benefit from a waiver of the BCC monopoly previously granted in their favour.

24/ Cf. OCIBU: Essai sur la politique nationale du café, op. cit., p. 162.

B. Price-setting mechanisms

1. Factors determining the price of coffee on the domestic market

104. The elements that determine producer prices are based on the following data. 25/

- World price quotations;
- FOB Dar es-Salaam price for exported coffees;
- Expenses of all the participants in the coffee trade.

105. These factors are summarized annually at the biginning of the coffee harvest in table form by the OCIBU Board of Directors. The table, referred to as the "Sliding Scale," presents a highly detailed structure of the costs involved in marketing coffee from production to delivery at the port of Dar-es-Salaam. The costs comprise fixed and variable elements which are analyzed below.

(a) Fixed elements

106. The fixed elements in the "Sliding Scale" include several components that affect various stages in the marketing of coffee. In outline form, they are as follows.

(i) Producer purchase price

107. The price of parchment coffee purchased from the producer is fixed by order of the Minister whose portfolio includes the national economy. It is set in function of the estimated average international market price, the estimated average sales price FOB Dar-es-Salaam and the price in effect in the neighbouring countries.

25/ In this connection, see G. Banyiyezako, La politique des prix agricoles, cas du Burundi, Memoir, University of Burundi, 1978.

26/ These tables will be found in OCIBU's Annual Reports. For an exhaustive analysis of these questions, see F. Nankobogo, L'instabilité des prix du café sur le marché international et ses incidences macroéconomiques, cas du Burundi, Memoir, University of Burundi, Bujumbura, 1979.

108. Establishment of a producer price satisfies a number of imperative to which it is not always easy to assign numerical values:

- The price paid to the producer must enable him to meet his expenses: in other words, it must take into account the cost of production;
- The producer price must also take into account the producer's buying power in particular, it must be higher than or at least equal to the previous year's price;
- With a view to preventing frauds, the price paid to the Burundi producer must take into account the remuneration for perchment coffee in neighbouring Rwanda;
- Whenever world prices are on the decline, the producer price must not be reduced: the planter would ultimately decrease the amount of care given to his coffee trees;
- When international prices are on the rise, a slight raise in the price paid to the producer may be effected, but not commensurate with the rise in market quotations, so as to ward off negative reactions on the part of planters in the event of a possible drop in subsequent years.

109. A comparision in Table 10 between the producer and sales prices illustrates the above remarks.

(ii) Remuneration of the middleman

110. The middleman is a trader who buys parchment coffee at different trading centres in the interior of the country and sells it to the OCIBU hulling plants. The middleman is paid by kilogramme of parchment coffee bought; the amount of this payment has been BurFr. 3 per kilogramme since 1977. The figure, however, is increased by the amount of transportation costs incurred from collection centres to plants at Bujumbura: this additional figures is set by the authorities.

Table 10. Evolution of producer and selling prices

Season	BurFr./kg	Index 1977/78 = 100	Mean Selling price in cts/lb
1973/74	39.00	33.9	54.60*
1974/75	45.00	40.2	51.71*
1975/76	39.00	34.8	56.67
1976/77	65.00	58.0	116.69
1977/78	112.00	100.0	226.37
1978/79	112.00	100.0	120.80
1979/80	116.00	103.5	154.65
1980/81	118.00	105.3	Not determined

Source: BRB, Bulletin trimestriel, various issues

*Arabica only

(iii) OCIBU action

111. The amounts deducted in accordance with the Sliding Scale in favour of OCIBU pertain to a number of items:

- Financing of activities not only within the framework of OCIBU's ordinary budget, but also within that of its investment budget;
- Deductions pertaining to the NGOZI project, intended to cover Government participation in the project and to repay US AID and Kuwaiti Fund loans;
- Lump-sum remuneration for OCIBU activities as wholesaler.

(iv) Expenses borne by the wholesaler

112. The sliding scale evaluates the different costs borne by the wholesaler, in this case OCIBU; these costs relate to the following areas:

- Packing costs;
- Transportation from the plant to the OCIBU warehouses;
- Wholesaler finance charges;
- Insurance for the stock of coffee.

(v) Expenses borne by BCC

113. Foreign marketing of coffee entails expenses borne by BCC, which the Sliding Scale takes into consideration. These expenses are as follows:

- BujumburaPort Authority (EPB) - Kigoma transportation costs;
- Kigoma-Dar-es-Salaam transportation costs;
- Commission for warehousing at Dar-es-Salaam;
- BCC operating expenses;
- BC finance charges;
- BCC service charges;
- Insurance costs paid to SOCABU.

(b) Variable elements

114. The variable factors include insurance costs, collection fees and costs relating to weight losses.

(i) Insurance costs

115. These costs represent a certain percentage of the FOB Dar-es-Salaam value of a ton of green coffee that BCC pays to SOCABU for the security of its coffee exports.

(ii) Collection fees

116. These are fees which BCC pays to the commercial banks as commissions for services rendered in the payment of coffee purchases by importers. These costs represent a certain percentage of the FOB Dar-es-Salaam value of a ton of green coffee.

(iii) Weight loss

117. For various reasons, the coffee shipped from Bujumbura to the port of Dar-es-Salaam is subject to a weight loss, which constitutes a loss of profits for BCC. To offset this, the Sliding Scale provides a certain percentage of the FOB value of a ton of green coffee for this purpose.

118. For illustrative purposes, the Sliding Scale for the 1980/1981 season for arabica coffee is given below; the Sliding Scale for robusta is the same, with the one difference that the producer price of robusta is lower than that of arabica.

Table 11. Sliding scale for arabica green coffee exports (1980/1981 Season)

Basis: 20 000 T production with 74% yield

A. FIXED ELEMENTS	
1. Producer price	
Delivered Bujumbura plant, BurFr. 116 per kg of parchment coffee with moisture content of 15%, yield 74%	159 459
2. Payment of middleman	
BurFr. 3 per kg of parchment coffee - i.e., 74% green coffee per Ton	4 054
	163 513
3. OCIBU operations	
B.O. - Ngozi Project	6 719
B.O. - OCIBU	16 592
B.E. - OCIBU	3 869
B.E. - National Coffee-Growing Industry	8 000
OCIBU financing	less 5 000
	30 180

(Table 11, continued)

4. Expenses borne by wholesaler

- Packing
- Transportation from plant to OCIBU port
- Wholesaler remuneration
- Coffee-stock insurance
- Wholesaler finance charges 7 150

Cost of green coffee delivered to Bujumbura warehouse 200 843

5. Expenses borne by BCC

- Transportation costs
- Warehousing commission
- Operating expenses
- Export duties, etc. 89 825

Cost of green coffee delivered to Dar-es-Salaam 290 668

B. VARIABLE ELEMENTS
(on FOB Dar-es-Salaam value)

- Insurance: 0.3315%
- Collection: 0.5500%
- Weight loss: 0.1700%
1.0515%

Source: OCIBU, Annual Report 1980.

2. International coffee market

(a) Futures market

119. Futures trading, a type of contract negotiated on a stock exchange, constitutes the most common form of purchases and sales in the international coffee trade. On this type of market, a transaction consists of buying and selling a particular item - in this case coffee - at a price established when the deal is concluded, though payment is to be made only at the time of delivery. 28/ In any event, for the buyer as well as for the seller, the principle is protection against price fluctuations.

28/ For these aspects see Y. Simon, Bourses de commerce et marché à terme de marchandises, (Paris, Dalloz, 1977).

120. Coffee exchanges are generally located in ports, the chief ones being New York, London, Hamburg, Amsterdam, Bremen, Le Havre, Antwerp and Paris. The first international coffee exchange, the New York Coffee and Sugar Exchange, was founded in 1882 and includes among its members large transnational corporations such as Nestlé, Coca-Cola and General Foods.

121. Specific contracts are negotiated on the different exchanges: contract "A" is for Colombian milds, contract "B" for unwashed arabica, contact "C" is negotiated on the New York futures market for other mild arabica coffees and contract "D" is for robusta.

122. The contract "C" quotation which determines the price of Burundi coffee depends on prices of coffee from Guatemala, El Salvador and Mexico, the highest grade of Guatemalan coffee generally serving as a reference. The profile of "C" contracts over the last two harvest seasons is given below.

Table 12. Development of coffee contracts (FOB Dar-es-Salaam)

	1978 - 1979		1979 - 1980	
	Quotation in foreign currency (cts/lb)	Quotation in BurFr. (BurFr./kg)	Quotation in foreign currency (cts/lb)	Quotation in BurFr. (BurFr./kg)
July-August	120.58	239	154.77	307
August-September	123.76	245	145.24	288
September-October	106.84	241	169.22	336
September-October-November	109.75	217	-	-
October-November	135.73	269	174.81	347
November-December	126.73	251	175.43	348
December-January	111.52	221	167.14	332
January-February	94.99	188	146.31	290
February-March	89.82	178	-	-
March-April	-	-	153.33	304
April-May	-	-	105.64	210

Source: BRB

(i) Circulation of contracts

123. Contracts circulate from the time of promise to deliver a certain quantity of coffee of a certain grade until the contract is performed. Four main reference points are generally identified in the itinerary followed by a futures contract:

(a) The "origin" is the primary source of supply of physical coffee, in other words, the supplier who is to deliver the coffee as soon as the contract reaches maturity. In Burundi, BCC is the origin.

(b) The "trader" is the second party who enters into the contract with the "origin". The coffee will physically be forwarded to him upon maturity of the contract.

(c) The "reseller" negotiates the contract with the "trader" with a view to re-selling, in turn, to other takers. In general commodities exchange play the role of "reseller". In so far as there are commissions to be paid, "traders" frequently try to have recourse to the "origin."

(d) "Roasters" are coffee roasters who buy the contract and acquire the quantities called-for, either in order to process them immediately or to store them. The roasters generally impart the tone to the market, owing to their stocks; however, they rarely go as far as the "origin."

(ii) Price determination

124. The price on the exchange is determined in the case of forward contracts by the balance between supply and demand; 29/ the available quantity of coffee is estimated on the basis of the average of the contracts negotiable on the exchange at opening and at closing. Demand, like price offer, follows a profile dictated on the other hand by the forecasts of future production. The prices determined on the exchange - with reference to the New York exchange where Burundi coffee is sold - are of three orders:

(a) The "spot" or ex-dock price is the market price of the day which can be obtained only by a seller who has physical quantities of coffee for immediate delivery. Burundi owing to its landlocked situation cannot sell its coffee at the "spot" or ex-wharf price, since the time required for transportation must be taken into consideration.

(b) The "nearby" price is the price estimated by the exchange within a relatively short period up to three months. BCC generally executes contracts with "nearby" prices. Taking into account a delivery time of two months, it refers to the September prices, for example, when it enters into a contract in June to be performed in August-September.

29/ Cf. Nankobogo, op. cit., p. 17.

(c) The futures price is the exchange price estimated to be valid after a period generally longer than three months from the date on which it is computed. The "distant" price for June 15, for example, will be the price projected for November-December.

125. Generally-speaking, if a coffee shortage is predicted, the futures price will be more remunerative than the "nearby", whereas the reverse occurs when the stock which the roasters have on hand is low.

126. The daily coffee quotations on the futures markets thus offer the advantage of informing those interested in market trends and serve as a basis at the time any contract is executed. Such forward contracts, however, are the object of lively speculation, inasmuch as business operators and professional speculators seek to derive maximum profits from the differences between spot and futures prices.

127. In determining prices on an exchange, expected development of production, quantities available or en route and trends of commodity stocks as compared with demand are of capital importance, hence the vital part played by possessing information. This is one of the great strengths of the transnational corporations.

(b) Physical market

128. In the international coffee trade, physical quantities of coffee are the object of transactions, side by side with the various contracts circulating on the futures market.

129. The physical market takes form in the transactions of roasters, who address the traders with a view to buying from them the coffee negotiated at the "origin" or acquired by buying back contracts. The physical commodity market has storage facilities for ready availability of coffee; samples of such coffee are offered to traders who wish to get an idea of the quality of the commodity for sale.

130. In the event of a relative balance between supply and demand, the price on the physical market generally falls within a temporary parameter set by a floor price and a ceiling price. By juggling available stocks, the physical market, however, can also bring about appreciable variations in the prices applicable to buying and selling.

(c) BCC practice

131. BCC has two options in finding takers for Burundi export coffee: 30/

- It can specify the price that it wishes to obtain for a lot of a specified grade, as well as the quantity that it is in a position to offer. This sales approach is referred to as "offers."
- It can communicate the available quantity of a specified grade and request buyers to propose their prices. This system is designated as "bids."

132. Unless there is a difficult market situation, the second approach is generally used, for it places the buyers in competition, by telex or by telegram, to the advantage of BCC. For all intents and purposes, this approach is similar to an auction, inasmuch as BCC considers only those buyers who offer the best prices.

133. BCC sales are governed by two types of international contracts:

- Sales oriented toward Europe are governed by the "European coffee contract"; the place of arbitration in the event of a disagreement between the parties is Antwerp.
- Sales destined to the United States of America must comply with the terms of the "FOB Mild Contract" of the Green Coffee Association of New York, which has New York as its place of arbitration.

134. As stated in the BCC general terms and conditions of sale, every contract of sale must specify the quantity to be delivered, the grade of coffee, the price per pound FOB Dar-es-Salaam, the manner of payment, the delivery time, the destination and the place of arbitration.

135. BCC sales are always on a forward basis. The price is in fact fixed at the time the contract is signed in reference to the futures market prices quoted for the period of shipment; this price is theoretically payable only on delivery. Payment can be made, however, by "cash against document" or by "letter of credit": in other words, it is common to recieve payment even before the buyer has received his coffee.

136. The following companies are among the major buyers of Burundi coffee.

Table 13. Major Burundi-coffee buyers

UNITED STATES	EUROPEAN COMMUNITY	OTHERS
1. Ac and Leon Israel, New York	1. Bunge N.V., Antwerp, Belgium	1. Volkart Brother Inc., Winterthu Switzerland
2. Sacks International, Inc. New York	2. Africafes, Brussels, Belgium	
3. Socomex, New York	3. De Lamar, Le Havre, France	
4. I. Aron & Co., Inc., New York	4. George Daras, Marseille, France	
5. Acli Coffee Company, New York	5. Ac Israel, London, G.B.	2. André & Cie., Lausanne, Switzerland
	6. Socomex, London, G.B.	
	7. B. Rothfos, Hamburg, GFR	
	8. Multitrade B.V., Naarden, Netherlands	

Source: BRB, Service des Exportations

C. Role of Associations of producing countries

1. The International Coffee Organization (ICO)

137. The place of coffee in the economies of the majority of producing countries and the interest which importing countries have in the coffee trade have led both groups to enter into agreements aimed at regulating the market. ICO constitutes one of these contractual frameworks.

138. ICO was created in 1962. Its function is to ensure that international coffee agreements are put into effect and to supervise their operation. Twenty years after its creation, ICO now includes 72 member countries, of which 47 are exporting members, covering nearly 99 per cent of world supply, and 25 importing members, representing nearly 90 per cent of world purchases.

139. Attempts had been made to group coffee producers and importers prior to establishment of ICO: the Mexico Agreement of 1957 and the Latin-American Agreement of 1958 are cases in point. However, despite their purpose of stabilizing coffee prices as currently provided by ICO, these earlier agreements suffered shortcomings that limited their efficacy; in particular, they covered only a single coffee-growing season, and they only included producing countries, and not all of them at that.

140. A summary of the essential features of the different agreements of which ICO is depositary is given below.

(a) Fundamental objectives of the agreements

(i) The 1962 agreement

141. This agreement was concluded at a time of surplus, and its essential aim was to solve the immediate problems connected with surpluses through creation of a global export quota based on world consumption to be divided among producing countries in accordance with their shares in total production.

142. Signatories to this agreement further accepted that coffee production should be gradually limited and their efforts should be geared toward diversified production of other products. 31/

(ii) The 1968 agreement

143. This agreement, like that of 1962, did not contain any practical economic provisions on international commitments regarding prices. 32/ Its objectives were

31/ Cf. P. Streeten and D. Elson, Diversification and Development: The Case of Coffee,(New York, Praeger, 1971.)

32/ For the 1962 and 1968 accords see B.S. Fisher, The International Coffee Agreement, a study in coffee diplomacy,(New York, Praeger, 1972)

therefore similar to those of the previous agreement, though there were certain theoretical improvements contained in Article 1, which can roughly be summarized as follows:

- Ensuring a sufficient supply to consumers;
- Ensuring outlets for the producers at prices both equitable to consumers and profitable for producers;
- Mitigating fluctuations in coffee prices;
- Raising employment and income to an acceptable level and maintaining it in member countries;
- Promoting the purchasing power of the exporting countries.

144. Article 27 of the 1968 agreement further provided that the members are in agreement concerning the necessity of making sure that the general level of coffee prices does not drop below their 1962 general level. Finally, the agreement provided for quotas and intervention prices for each type of coffee and instituted an exporting countries' production Diversification Fund.

(iii) The 1976 agreement

145. This agreement is an attempt to adapt earlier provisions to changes in the world economy following the petroleum crises by:

- Reconsidering the measures aimed at price stabilization;
- Raising the floor price;
- Avoiding excessive fluctuations in world supply, available stocks and prices.

146. The principal economic measures aimed at stabilizing prices on the world market took two forms.

a. Regulating the market

147. ICO assigns to each member country a basic quota depending on the size of its exports destined to those importing countries which signed the agreement. Supervision of quotas is effected through use of certificates of origin or of re-exportation issued by a qualified agency selected by the member country and approved by ICO.

b. Production policy

148. The agreement calls for a policy aimed at assisting exporting countries in diversifying their production and planning coffee harvests in such a way as to avoid surpluses with respect to consumption. Two funds have been created for

this purpose: The diversification Fund and the Special Fund. These funds are to finance studies with a view to improving organization and diversification of production; management of stocks and of the system of certificates of origin; and preparation and transmission of statistical data to ICO member countries.

(b) Principal limitations of the agreements

149. The essential feature of the international agreements on coffee is that they bind governments and not direct users or producers. In this context, there is potential to doubt the capacity of the agreements to alleviate the extreme sensitivity of the market and its prices: indeed despite their existence, excessive variations in the area of price differences persist. Therefore, the international agreements have yet to prove their ability to affect market prices: they are in fact concerned with defending a ceiling price - which they do not succeed in doing; the gap between the floor and the ceiling prices, however, continues to confront the economies of the exporting countries with uncertain future prospects.

150. Discussions between exporting and importing countries always revolve around two irreconcilable positions:

Producing country demands for an escalation in coffee prices in relation to world inflation and monetary devaluations are ignored by importing countries;

Exporting countries want a total revision in price ranges owing to the interdependence between the coffee trade and the economic instability of markets open to industrial products; importing countries, however, reject any approximation of the floor and ceiling prices.

2. The Inter-African Coffee Organization (IACO)

151. IACO, which pre-dates ICO, was created in 1960 in the Republic of Madagascar. Its purpose is to study the range of problems connected with African coffee from the standpoints of production, packaging and marketing, with a view to assuring, as stated in its by-laws:

- Harmony in the rate of disposal of coffee produced;
- Optimum level of selling prices;
- Consumption of African coffees;
- Propaganda aimed at increasing demand.

152. As African countries, through IACO, control nearly 90 per cent of the world's robusta production, the organization provides them with an opportunity for unity in attempting to derive the greatest possible profit from international trading in their coffee. IACO meets periodically and reports to its members, with the specific aim of enabling them to adopt a common strategy vis-a-vis the importer group.

LACO's concrete results are still slim: its active stance, in fact, really only dates back three years with the organization of seminars on the problems of African coffee.

3. The African and Malagasy Coffee Organization (Organization africaine et malgache du café - OAMCAF)

153. OAMCAF includes the African coffee-producing countries (former French colonies) of western and central Africa and Madagascar. All OAMCAF member countries are also LACO members. In order to protect the interests of this particular coffee-producing area, the coffee produced in OAMCAF member countries is marketed exclusively through this community institution.

154. Constraints on robusta coffee prices, however, do not allow OAMCAF to attain its goals: in addition, intense competition between Indonesian and Ivory Coast robusta production limits OAMCAF's effectiveness.

CHAPTER IV

TRANSNATIONAL CORPORATIONS AND THE DISTRIBUTION OF GAINS IN THE COFFEE INDUSTRY IN BURUNDI

A. Transnational corporations involved in the coffee industry

155. One cannot speak here of transnational corporations in the strict sense of the term; however, the bonds between enterprises in various sectors in Burundi and large international corporations, in particular European ones, allow for consideration of foreign companies established in Burundi as veritable extensions of the big international groups.

1. Changes in the industry

156. The activities of the majority of corporations involved in the Burundi coffee industry pre-date independence: this is the case of commercial banks, insurance companies, import-export houses and the like. Although the companies often had to change their names or headquarters after the country gained independence in order to adapt to new requirements, their essential activities remained the same. Burundi authorities, however, have adopted important measures with regard to these corporations, sometimes entirely changing their status. These changes are of two kinds:

- Gradual take-over of coffee marketing channels by the authorities;
- Creation of mixed, public/private corporations and State participation in the stock of private corporations.

(a) Disappearance of wholesalers

157. In the area of marketing, as has already been mentioned, the 1978/79 season witnessed total disappearance of foreign companies involved in the collection of parchment coffee: the last ones to participate in this area were Burundi-Export, Coffex, Israel D & H and Prostan. Some wholesale companies have completely disappeared from the Burundi coffee industry; others moved to new sectors; and others still were able to consolidate their positions in the export-import business.

158. As previously pointed out, these companies controlled the collection of coffee, its processing and its exporting. At present, OCIBU has a monopoly on collecting; the hulling plants today belong to OCIBU; and the exclusive right to export coffee has been entrusted to BCC.

(b) Promotion of mixed corporations 33/

159. Foreign companies shared to varying degrees in the marketing of coffee, and in planting, financing, insurance, transportation, etc. The Government subsequently acquired interest shares in private corporations already operating in these different sectors, such as Arnolac, BCB and BANCOBU, or created mixed corporations. 34/ The State's aim in so doing was two fold. It wished:

- To have a genuine, effective right of inspection regarding activities that directly affected the population, in order to control the prices for services rendered or goods produced;
- To have a much more manageable instrument for the implementation of political decisions, such as achievement of a certain degree of autonomy in organizing international transport, insurance, agricultural production, etc.

160. Areas affecting the coffee industry in which the State has intervened include:

(i) Plantations: 49 per cent interest in SOBUMINES (1974) along with private corporations including Ruzizi;

(ii) Banking: 3.3 per cent share in BCB (1974) and 6 per cent share in BANCOBU (1973);

(iii) Insurance: monopoly granted in the area of insurance to a mixed corporation SOCABU(1977), in which the State holds 90 per cent of the stock;

(iv) Transportation: 10 per cent interest in the capital of ARNOLAC (1973) with possibility of extension with a view to setting up a modern corporation to provide lake transport.

2. Profile of active transnational corporations

161. Transnational corporations currently involved in the economy of Burundi can be divided into three major groups: plantation, finance and transport companies.

(a) Plantation companies

162. The three companies involved in coffee-growing are Ruzizi, Sodagri and Sobumines:

33/ Cf. L. Gahungu, la gestion du protefeuille de l'Etat dans les sociétés d'économie mixte au Burundi, Memoir, University of Burundi, Bujumbura, 1981

34/ See W. Kuhn, and V. Shingiro, Analyse économique et financière des enterprises publiques due Burundi, cas choisis, Bujumbura, 1981.

(i) Ruzizi, the oldest and largest of all, is entirely foreign-owned, chiefly by Belgian interests;

(ii) Sodagri has no participation by the Burundi State of local interests: in addition to coffee, the corporation is interested in soybeans, cassava, maize and peppers;

(iii) Sobumines is a conglomerate in which the State collaborates with finance, mining and plantation interests.

163. None of these corporations are large plantation concerns such as those found in other areas of the world: their production ranges in the vicinity of 1000 tons yearly.

164. The Ruzizi, Sodagri and Subumines corporations operate in line with priorities of the host country: they grow robusta, which is a back-up to arabica: they have decentralized, productive investment; they use local labour; and they are active in the cultivation of food products.

165. The priviledges enjoyed by these corporations indirectly imply that the Government of Burundi implicitly acknowledges their contribution to the national economy, even though this contribution is not always quantifiable. It should be noted that the State of Burundi owns a share of interest in Sobumines; that OCIBU has placed a plant at the disposal of the Ruzizi corporation to process its coffee; and that Ruzizi has long enjoyed the privilege of exporting the robusta from its plantations itself.

166. The taxes and customs duties payable by these corporations in connexion with the coffee business are substantial; nevertheless, the revenue derived from the sale of robusta coffee - based on samples, and not qualities of grades, as is the case for arabica - is quite out of proportion with the contribution of these corporations to the economy of Burundi, thus a renegotiation of advantages is in order.

(b) Finance companies

167. The private banks active in the financing of the coffee-growing season are BCB, BANCOBU and BBA. 35/

(i) Banque de cr édit de Bujumbura (BCB)

168. BCB is the oldest of the three commercial banks located in Burundi: It was established in 1952 under the name "Banque du Congo"; this was changed to the present name under the charter of 27 May 1960. At present BCB's registered capital is BurFr.

35/ See D. Nkubikiyimana, L'organisation et la structure financière des institutions bancaires au Burundi, Memoir, University of Burundi, Bujumbura, 1977.

150 million, represented by 72 600 shares of stock, divided up as follows:

- Public Sector: 13 100 shares, or 18 per cent, including:
  - State of Burundi: 10 500 shares (actually 3.3 per cent of the capital is paid up)
  - SOCABU: 2 600 shares
- Foreign banks: 59 494 shares, or 82 per cent, including:
  - Société Générale de Banque: 35 000 shares
  - Belgolaise: 24 494 shares
- Private individuals: 6 shares

169. The Société Générale de Banque and Belgo-Zairoise (commonly referred to as "la Belgolaise"), which total 82 per cent of the stock, are Belgian fiancial groups.

(ii) Banque commerciale du Burundi (BANCOBU)

170. BANCOBU has been in existence since 1960 and was previously named "Banque du Rwanda-Burundi"; this name was changed to the present one on 25 May 1964. The registered capital of BANCOBU totals BurFr. 150 million, divided into 500,000 shares, each with a value of BurFr. 300. The principal subscribers are:

-Public sector: 117 999 shares, or 23.6 per cent, including:

- State of Burundi: 33 333 shares
- INSS: 66 666 shares
- SOCABU 18 000 shares

- Société financiére d'Outre-Mer and partners: 338 280 share, or 67.1 per cent, including:

- SFOM: 131 274 shares
- Bruxelles-Lambert: 51 006 shares
- Banque Nationale de Paris: 51 000 shares
- Bank of America: 51 000 shares
- Dresdner Bank: 51 000 shares

- Nationals: 46 721 shares, or 9.3 per cent.

171. National interests representing the public sector and individuals hold 33 per cent of shares . The remaining 67 per cent belongs to Western interests and in particular, SFOM, a Swiss-based holding company.

(iii) Banque Belgo-Africaine (BBA)

172. The Banque Belgo-Africaine du Rwanda-Burundi has been in existence since 1960 and subsequently became the Banque Belgo-Africaine du Burundi. Its registered capital is BurFr. 36 million and is presently made up of 72 000 shares with a value of BurFr. 500/each. Nearly all the stock is held by the Bruxelles-Lambert Bank (71 995 shares), which is also a stockholder of BANCOBU. The remaining five shares belong to a group of individuals.

173. The three banks virtually dominate the financing of Burundi's business, and more specifically, the financing of the coffee-growing season. The predominance of foreign banks in loans to the economy of Burundi has led the monetary authorities, at the beginning of each coffee-growing season, carefully, to determine the maximum authorized amounts of financing and also the rates at which coffee operations are to be negotiated.

Table 14. Rates applicable by approved banks on financing operations for the 1981-1982 coffee season

Stage of financing	Rate or amount	Liquidation rate with BRB
I. PREFINANCING		
Interest rate	5.5% yearly	4.5%
II. PROCESSING		
Interest or discount rate	5.5% yearly	4.5%
Commission	1/16%	
III. WAREHOUSING		
Interest rate	5.5% yearly	4.5%
Commission	1/16%	
IV. SHIPPING		
Interest or discount rate	5.5% yearly	4.5%
Commission	1/8%	

Source: BRB

174. Some feel that the local commercial banks make enormous gains for the services that they render - services that are not always absolutely necessary, it seems - and that they ought to contribute toward the financing of upstream coffee activities.

(c) Transport companies

175. The two transport companies directly involved with coffee are EPB and ARNOLAC.

(i) Société d'exploitation du port de Bujumbura (EPB) (Bujumbura Port Authority)

176. EPB is a limited-liability joint-stock company whose main activity is operating the lake port of Bujumbura. Until 1965, the port was run by the Compagnie des Chemins de Fer des Grands Lacs (CGL), a Belgian corporation. The latter transferred to EPB both the shares representing capital contributions and bonds floated with the guarantee of the State.

177. The registered corporate capital of EPB is BurFr. 30 000 000, represented by 1000 shares distributed as follows:

- BRB:	134 shares, or BurFr. 4 020 000
- BCB:	370 shares, or BurFr. 11 100 000
- ARNOLAC:	40 shares, or BurFr. 1 200 000
- CGL:	450 shares, or BurFr. 13 500 000
- Burundi Chamber of Commerce & Industry:	3 shares, or BurFr. 90 000
- Foreign interests:	3 shares, or BurFr. 90 000

(ii) Armement du Nord du Lac (ARNOLAC)

178. The ARNOLAC company was created in 1967 and today has a registered capital of BurFr. 128 000 000. It has close ties with EPB, not only by virtue of its management, but also by virtue of its financing, since, aside from a few private individuals, one of its largest stockholders is CGL in association with PARAMER and INTERRELAX. As already pointed out, the share of the State of Burundi in ARNOLAC is 10 per cent.

179. Theoretically, transport rates are charges are derived from the freight market and depend on distance, goods carried and risks. However, the Government of Burundi considers transportation a public service. The State therefore intervenes in fixing rates in order to maintain control over this sector. ARNOLAC rates are subject to State approval, which, it would seem, is not always in keeping with the wishes of the corporation in question.

180. Along these lines, the management has already filed a petition with the Government to turn the company over to the State. Burundi currently has a project for the acquisition of one or more ferry boats with a view to facilitating the forwarding of goods: a take-over of ARNOLAC would complement this.

181. The essential features of the transnational corporations active in the coffee industry of Burundi are summarized in Table 15.

Table 15. Characteristics of transnational corporations involved in the Coffee industry

Name	Date Created	Registered capital	State share in %	Other stockholders
1. BANCOBU	1964	150 000 000	6%	SFOM, SOCABU, ENSS, Bruxelles-Lambert, Banque Nationale de Paris, Bank of America, Dresdner Bank, private individuals.
2. BCB	1960	150 000 000	3.3%	SOCABU, Société générale de Banque, Belgolaise, Private individuals.
3. BRA	1967	36 000 000	-	Bruxelles-Lambert, Private individuals
4. ARNOLAC	1967	128 000 000	10%	CGL, PARAMER, INTERRELAX, Private individuals
5. EPB	1967	30 000 000	-	BRB, BCB, ARNOLAC, CGL, Chamber of Commerce and Industry, Private individuals
6. SOBUMINES	1974	81 500 000	49%	SFOM, RUZIZI, SFE, SOMUKI, GEMINES BELGES, Private individuals
7. SODAGRI	1976	20 000 000	-	N/A
8. RUZIZI	-	36 000 000	-	N/A

Source: BRB and Ministry of the Plan.

B. Distribution of coffee revenue among the different principals

182. The sliding scale provides a general outline for determination of the domestic price of coffee; it fails, however, to show the distribution of income among the different parties operating in the industry. The following data indicate in condensed form the distribution of gains and its development (see Table 16.

1. Producer's share

183. The planter benefits from one definite advantage: he can sell his entire production, regardless of quantity, at a price guaranteed by the State. Furthermore, this price practically tripled between 1975/1976 and 1980/1981 from BurFr. 39 to 118 thus planter income, in absolute terms, also trebled during the same period.

184. The share of total revenue to the producer has varied, however, between the following extremes during the period under examination: 32 per cent in 1977/78 and 62.8 per cent the following season. Downward trends in producer shares, shall be seen further on, have actually coincided with increased shares for export taxes and the equalization fund.

2. Middleman's share

185. Although the planter is the primary beneficiary in the coffee industry, he is not the only one: a chain of middlemen also profit from it. The middleman group (Table 16) comprises all the parties included in the Sliding Scale with the exception of the producer and the State. The share of the middlemen depends on costs incurred by them, such as wages, transportation, financing of various operations and the like.

186. In this connection, State control of the coffee industry is increasing therefore the share of middlemen is decreasing in favour of paragovernmental enterprises or export duties collected by the State: wholesale processing, NGOZI project and coffee-growing income OCIBU taxes and BCC are being credited to the public sector. In addition, the share going to the private middlemen group has been on the decline since the latter no longer handle collection, processing or exporting of coffee.

187. "Miscellaneous Costs" on the Sliding Scale represent the transnational corporations still involved in the marketing of Burundi coffee, particularly in the areas of transport and financing. The share of revenue accruing to this category of intermediaries represents on the average 6.5 per cent of total income from coffee.

Table 16. Distribution of coffee revenue among the major groups (in thousands of BurFr. per Ton and in %)

	1975/1976		1976/1977		1977/1978		1978/1979		1979/1980		1980/1981	
	Thousands	%	Thousands	%	Thousands	%	Thousands	%	Thousands	%	Thousands	%
1. Price of green coffee	52.	33	[illegible]	3[illegible]	154.4	31.7	151.7	[illegible]2.	[illegible]	[illegible]	158.3	5[illegible]
2. State of Burundi	23.9	24	108.8	46.2	294.1	60.7	60.8	21.1	111.77	35.1	51.1	18.4
3. Middleman group	23.5	23	37.1	15.8	36.3	7.6	38.9	16.1	52.3	15.4	68.3	24.7
4. Total export price FOB Dar-es-Salaam	100.3	100	235.2	100	483.8	100	241.6	100	318.5	100	278.1	100
5. Producer price of parchment coffee (BurFr./kg)	39.0		65.0		112.0		112.0		116.0		118.0	

Source: According to BRB and OCIBU data.

3. Share of the Treasury

188. Coffee provides substantial income to the State of Burundi which is, in fact its greatest beneficiary. The jump in the State's share from 8.95 per cent in 1975/1976 to 25.46 per cent in 1976/1977 before it climbed to 48.99 per cent the following year shows how greatly the State can benefit from favourable international coffee market conditions. Since the rise in coffee prices on the world market as a result of frosts in Brazil in 1975, the Government has substantially increased export duties levied on coffee exports and has added contributions to the Equalization Fund for financing development. 36/

189. Receipts from coffee exports constitute a basis in the formulation of Burundi's budgets: the operating and the investment budgets depend in large measure on the export duties collected on coffee. An increase in the proceeds from coffee thus has a favourable impact on public finances.

Table 17. Share of Coffee export duties in the financing of the ordinary budget

Year	Total % of export duties	% receipts ordinary budget	Year	Total % of export duties	% receipts ordinary budget
1967	86.0	12.5	1974	90.6	10.0
1968	75.6	8.0	1975	84.9	5.0
1969	82.1	4.9	1976	93.2	23.0
1970	90.9	15.3	1977	98.4	49.2
1971	87.8	10.3	1978	94.5	44.0
1972	94.3	15.0	1979	95.4	Not determined
1973	92.8	13.9	1980	Not determined	Not determined

Source: BRB

190. In terms of its contribution to the formulation the extraordinary budget, in 1977, 1978 and 1979, respectively, coffee provided 62.88 per cent 54.92 per cent and 18.20 per cent. 37/ 1977 witnessed implementation of numerous projects, thanks to receipts furnished by coffee exports which made it possible to increase the investment budget sixfold with respect to the previous year.

191. The summary table which follows shows the shares of the different participants in revenue derived from the coffee trade during recent years, with regard to marketable arabica coffee.

36/ In this connection see P. Bigirimana, La place du café dans l'économie du Burundi, Memoir, Unaza, Kinshasa, 1977; and A. Bacineni, Influence du café sur l'economie du Burundi, Memoir, Mons, 1973.

37/ See V. OCIBU, Essai sur la politique nationale, op.cit., p. 107.

Table 18. Distribution of income derived from the coffee trade

	1975/76		1976/77		1977/78		1978/79		1979/80		1980/81	
	FBu/T	%	FBu/T	%	FBu/T	%	FBu/T	%	FBu/T	%	FBu/T	%
Planters	52 910	52.74	91 026	38.70	153 734	32.11	151 741	62.81	154 378	48.49	158 264	56.91
Middlemen	2 714	2.71	3 501	1.50	4 115	0.86	4 065	1.68	3 993	1.25	4 024	1.45
Wholesaler	1 500	1.50	2 000	0.85	2 500	0.52	2 500	1.03	2 500	0.79	2 500	0.90
Processing	1 900	1.89	2 375	1.00	2 900	0.60	3 500	1.45	3 390	1.06	6 000	2.15
Miscellaneous costs	8 935	8.91	12 796	5.44	16 542	3.45	19 059	6.65	19 195	6.03	23 935	8.61
OCIBU taxes	4 000	4.00	6 500	2.76	4 500	0.94	8 060	3.34	8 090	2.54	14 461	5.20
NGOZI projet	300	0.30	869	0.38	1 600	0.33	2 270	0.94	5 300	1.66	6 719	2.42
Coffee-growing	-	-	-	-	-	-	-	-	7 240	2.27	8 000	2.88
BCC	4 022	4.00	7 482	3.18	3 000	0.64	2 500	1.03	2 600	0.82	3 000	1.08
Export duties	8 976	8.95	59 889	25.46	234 557	48.99	70 040	29.00	70 040	21.99	70 040	25.19
Equalization fund	15 056	15.0	48 744	20.76	55 351	11.56	-19 164	-7.93	41 730	13.10	-18 884	-6.79
Selling price	100 313	100	235 182	100	478 799	100	241 571	100	318 456	100	278 077	100

Source: OCIBU: Essai sur la politique national du café, op. cit., p. 9.

CHAPTER V

CONCLUSION

192. This study shows the efforts of Burundi authorities in the area of coffee production and yields over the past fifty years. The volume of Burundi coffee production, however, when viewed in African and world perspectives, is still insignificant. For this reason great care is now devoted to quality of coffee as this represents the basis for position and competition of Burundian coffee on the international market.

193. Control of domestic marketing supports the strategy of enhancing quality and has become more pronounced over the past few years through various measures including designation of OCIBU as sole wholesaler, purchase by the State hulling facilities and creation of BCC with exclusive coffee-exporting rights. Occurring as a result of these actions is the disappearance of private corporations, both domestic and foreign, that were previously involved in marketing coffee: these included middlemen, wholesalers, processors and exporters. There still exist transnational, areas in which the State has acquired interests. These sectors continue to be dominated by transnational corporations, especially in the banking area: nevertheless, administrative and statutory safeguards succeed in many cases in limiting their activities.

194. In Burundi, there are no transnational corporations in the strict sense of the term, only small-sized subsidiaries or simply "units" belonging to European corporations. This perhaps explains why the host country has generally had sufficient negotiating power to set the pace on the domestic level over the past few years. 38/

195. On the other hand, despite its membership in the major associations of coffee producing countries, Burundi has no control over the international market where its own coffee is traded: in this respect, transnational corporations still retain a dominant position; 39/ the ability of international agreements on coffee to remedy this has yet to be demonstrated.

38/ For these methodological aspects, see ECA: Transnational corporations in export-oriented primary commodities: a general conceptual framework for case studies, Working Paper No. 1, Addis Ababa, 1979.

39/ Cf.: The role of transnational corporations in the marketing and distribution of exports and imports of developing countries, TD/B/C.2/197, Geneva, 1978.

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